

Volume 34, Number 15

July 6, 2012

Dear Client:

A new president was elected in Mexico this week, but this wasn't the only major development in that country affecting those of us in Texas. For a variety of reasons, there has been a major reversal in the long-standing pattern of immigration.

A recent study from the Pew Hispanic Center indicates net migration from Mexico has fallen to zero – and may actually be negative. In other words, **more people are leaving the United States and going to Mexico than are entering from our neighbor just a few hundred miles south of Austin.** Admittedly, the data is somewhat difficult to obtain since much of the immigration consists of undocumented persons. But consider several factors pointed out by Texas-based economist **Ray Perryman.**

First of all, the incentives to move to Austin, Texas, and other former US destinations have been greatly reduced by the **overall weakened US economy.**

The birth rate in Mexico has dropped substantially from about 7.3 in 1960 to 2.4 in 2009, and slower population growth, particularly in younger age groups, works to shrink the Mexican workforce. As a result, there are **fewer people vying for available jobs and, over time, fewer unemployed leaving the country.**

Moreover, **Mexico is seeing a more rapid comeback** from the global recession than the US, thus further enhancing relative opportunities.

And maybe even more telling, **illegal crossings have become more difficult and dangerous** due to increased enforcement and border violence from warring drug cartels focusing much of their violent “warfare” on the border of Texas.

Perryman predicts the **past pattern of immigration from Mexico will likely resume, although at a more modest pace.** The policies of the newly-elected Mexican president are also likely to play a big role. **Enrique Pena Nieto**, the young (45) charismatic former Mayor of Mexico City, represents a major change in Mexico's political party ruling machinery (click on the “Archives” button at the top of this page and go to our June 22, 2012 edition for more background). **Pena Nieto said all the right things about working with the US during his campaign,** and he vowed to tackle the murder, extortion, kidnapping and robbery that affect ordinary Mexicans during his 6-year term as president. It will be important to watch.

One economic magnet for immigrants is the construction business. Residential home building in Austin is expanding rapidly, though not at the pace of previous go-go days.

While homebuilders in the Austin area **started construction on more homes in 2nd quarter 2012 than at any time since the 3rd quarter of 2009**, the tally is still far off the pace recorded during the calendar year 2006. This comparison is not intended to dampen the very good news of the uptick in building new homes that is occurring as we speak. It shows **there is still a very big upside** to what is already an impressive showing. After all, real estate economist **Mark Dotzour** says that “in typical recessions, new housing construction is one of the early signs of economic recovery.”

What is contributing to the upside? The Austin area’s **population is growing** at one of the fastest-rates in the nation. **Jobs are more plentiful** in the area than in most other parts of the US. And because apartment units are running full, rental rates have escalated to the point that **monthly apartment rental payments in many cases are greater than a monthly mortgage payment**. **Record-low interest rates** are also very attractive for homebuyers.

For *existing* homes, it is definitely a seller’s market. **The number of homes with for sale signs in the front yard is low and those signs soon are covered with another smaller sign that says “contract pending.”**

Okay, just how big is the upside? You need to temper expectations because, frankly, it will be several years before the 2006 total is reached.

Even though all of the activity just cited is occurring during a time of relative tight money, the fact is **it is still tough to get a mortgage**. Nothing like 2006. In 2006, the requirements for a mortgage were so lax that many who would not qualify for a loan today were **actively encouraged to grab those easily-available loans**. Those who got in over their heads were part of the problem that led to so many foreclosures as the economy headed south soon thereafter.

To put numbers to this perspective, consider that **in 2006, new home construction starts in the Austin metro area totaled almost 16,000**. The low in 2010 was just south of 6,000 starts. The second quarter 2012 was almost 2,000 – and increasing each quarter. **Maybe, just maybe, by the end of this year, 2012 new home starts might reach 8,000**. This is only half the 2006 total. So you can see that, even if there is double-digit percentage growth over the next few years, it will probably be several years before the 2006 total is reached.

And, when you think about it, this is probably a good thing. After all, one of the reasons the Austin area has been among those leading the nation coming out of the recession is there was **no home-overbuilding and hyper-inflation of housing values** as occurred in the nation’s hardest-hit areas. Solid, steady growth for the right reasons is a hallmark to be coveted.

Texas is enjoying an oil and gas boom. But as the price of oil fluctuates, what does that do to revenue for the State of Texas? Here's an easy yardstick for you to measure the impact.

Just watch the price of oil per barrel. When crude was \$100 a barrel earlier this year, the State raked in about \$8.1 million dollars in oil taxes *every day*. **If the price per barrel drops by \$30, that \$8.1 million per day in tax revenue drops to about \$6.7 million.** (That's about \$43 million per month at the lower rate.)

This is a significant amount of money because the **Texas Legislature, when it convenes in Austin in just six months, will be scratching for every bit of revenue it can find.** But remember, the largest revenue source for the state is the sales tax. So an increase in consumer spending will have a greater impact.

Speaking of government revenue, voters in California's Silicon Valley will vote in November on a 25% increase in the minimum wage businesses must pay employees.

The San Jose City Council unanimously approved sending voters a ballot initiative in November that seeks to raise the city's **minimum wage from \$8 per hour to \$10 per hour and to increase in future years with the cost of living**, according to the *San Jose Mercury-News*. The San Jose Silicon Valley Chamber of Commerce and the California Restaurant Association opposed the measure.

The proposal closely tracks one adopted in 2004 in San Francisco. The annual cost-of-living raises in SF have the bottom wage this year at \$10.24 an hour. Incidentally, **this is the highest minimum wage required by any city in the nation.**

Apple's proposed spaceship-shaped headquarters planned for Cupertino, California has been given an environmental fast-track by Governor Jerry Brown. But the shovels won't be going into the ground any sooner.

The \$100 million, four-story loop structure will include **3.1 million square feet** of office space in the midst of 180 acres and will **house more than 12,000 employees**. The building was designed by legendary architect Sir **Norman Foster**. Construction will not begin any sooner than the early-2013 timetable announced by **Steve Jobs** in his final public appearance last year.

The governor's "fast-tracking" simply means that **Apple will enjoy a smoother judicial review process if legal action is brought against the project.** The plan is to provide an incentive to **keep the project moving** because any challenge to Apple's environmental impact report will be fast-tracked through California's court system.

Think airlines are running out of ideas for fees? You'd better think again.

According to our friends at *The Kiplinger Letter*, some US airlines will **charge for oversize carry-ons**. This is the norm in Europe. Or some may follow Spirit Airlines and Allegiant Air's example and **charge for all carry-ons**. *Kiplinger* also suggests some carriers will gamble that **passengers will pay more for wider seats**.

And Delta hopes to convince passengers to pay **\$12 for in-flight Internet**. Delta offers free access to Amazon.com and other sites because Delta gets a cut in sales. But Delta customers who want to browse more broadly will need to pull out their wallets.

By the way, more passengers passed through Austin-Bergstrom International Airport (ABIA) in May than the travel-heavy month of March (South by Southwest, Spring Break, etc.). And ABIA's heaviest air travel months – June (with numbers to be released in a few weeks) and July – are upon us. Allow a little more time for the crowds this month, especially at security checkpoints, if you've got travel plans in July.

Little-known tidbit: Denver, Detroit and a few other airports have implemented a trial security checkpoint strategy. **Those 75 and over do not have to take off shoes or jackets** as they go through the line (insert your own wisecrack here).

Several airlines that operate at ABIA were named among the Top Ten of the most *disliked companies* in the US. **United Airlines was #5** on the American Customer Satisfaction Index. **American Airlines, in the midst of a Chapter 11 bankruptcy, ranked #8**. The airline that is jockeying for a merger with American, **US Airways, didn't fare much better, ranking #9**. **And Delta was #10**.

Dr. Louis Overholster, after reading this week's story about the fast pace of new home construction in the Austin area, wisecracked that "apparently interest rates are so low that people can't afford to pass up a deal where it costs so little to get foreclosed!"

Sincerely



Editor/Publisher